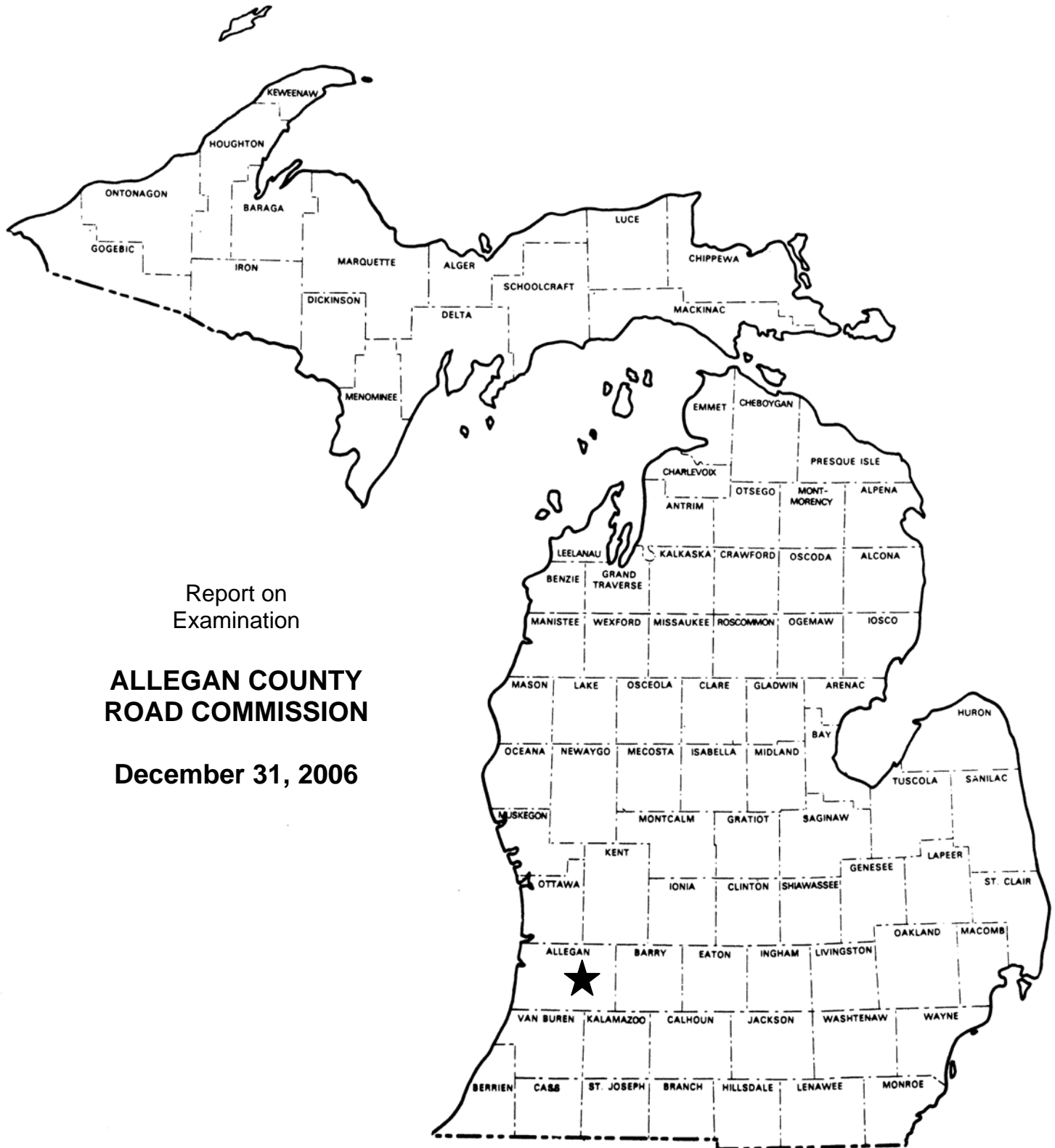


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**ALLEGAN COUNTY
ROAD COMMISSION**

December 31, 2006

ALLEGAN COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Bruce D. Culver
Chairman

James S. Rolfe
Vice-Chairman

John A. Cravens
Member

William L. Nelson
Managing Director

Claire R. Patrick
Business Manager

COUNTY POPULATION--2000
105,665

STATE EQUALIZED VALUATION--2006
\$5,245,793,934



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 29, 2007

Allegan County Road Commission
Board of County Road Commissioners
1308 Lincoln Road
Allegan, Michigan 49010

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the governmental activities of the Allegan County Road Commission, a component unit of Allegan County, Michigan, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Allegan County Road Commission as of December 31, 2006 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2007 on our consideration of the Allegan County Road Commission's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 8 and the budget comparison information in Exhibits G and H are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Allegan County Road Commission's basic financial statements. The accompanying supplemental and related information in Exhibits I through K are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ALLEGAN COUNTY ROAD COMMISSION

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ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Allegan County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

ALLEGAN COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 4. The fund financial statements begin on page 9 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 7.59%, or \$9,076,303, from \$119,575,615 to \$128,651,918 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets-net of related debt) are considered restricted.

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The restricted net assets increased by \$755,102 during 2006. The primary reason for the increase was a decrease in liabilities due to a decrease in program expenses and increase in taxable value for the county millage.

The investment in capital assets-net of related debt increased by \$8,321,201. The increase in net assets is primarily the result of the infrastructure additions of \$12,236,744 for the year 2006. The depreciation for the current year's infrastructure will be depreciated in the subsequent year.

Net assets as of year ended December 31, 2006 follows:

	<u>2005</u>	<u>2006</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 7,282,166	\$ 8,323,347	\$ 1,041,181	14.30%
Capital Assets	<u>115,766,810</u>	<u>123,890,382</u>	<u>8,123,572</u>	<u>7.02%</u>
Total Assets	<u>123,048,976</u>	<u>132,213,729</u>	<u>9,164,753</u>	<u>7.45%</u>
Liabilities				
Current	610,742	486,395	(124,347)	-20.36%
Noncurrent	<u>2,862,619</u>	<u>3,075,416</u>	<u>212,797</u>	<u>7.43%</u>
Total Liabilities	<u>3,473,361</u>	<u>3,561,811</u>	<u>88,450</u>	<u>2.55%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	115,569,181	123,890,382	8,321,201	7.20%
Restricted	<u>4,006,434</u>	<u>4,761,536</u>	<u>755,102</u>	<u>18.85%</u>
Total Net Assets	<u>\$ 119,575,615</u>	<u>\$ 128,651,918</u>	<u>\$ 9,076,303</u>	<u>7.59%</u>

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2006 follows:

	Governmental Activities		Variance Increase (Decrease)	%
	2005	2006		
Program Revenue				
License and Permits	\$ 32,675	\$ 23,346	\$ (9,329)	-28.55%
Federal Grants	1,788,151	2,462,844	674,693	37.73%
State Grants	8,780,154	9,167,176	387,022	4.41%
Contributions From Local Units	5,478,159	5,452,629	(25,530)	-0.47%
Reimbursements	6,889	40,030	33,141	481.07%
Interest and Rents	188,954	83,820	(105,134)	-55.64%
Charges for Services	16,378	27,512	11,134	67.98%
General Revenue				
Taxes	2,329,044	2,474,663	145,619	6.25%
Total Revenue	18,695,904	20,199,219	1,503,315	8.04%
Expenses				
Public Works	12,354,331	11,120,577	(1,233,754)	-9.99%
Interest Expense	10,112	2,339	(7,773)	-76.87%
Total Expenses	12,364,443	11,122,916	(1,241,527)	-10.04%
Excess Before Transfers	6,331,461	9,076,303	2,744,842	43.35%
Transfers In--Primary Government	8,235		(8,235)	-100.00%
Increase (Decrease) in Net Assets	6,339,696	9,076,303	2,736,607	43.17%
Beginning Net Assets	113,235,919	119,575,615	6,339,696	5.60%
Ending Net Assets	<u>\$ 119,575,615</u>	<u>\$ 128,651,918</u>	<u>\$ 9,076,303</u>	<u>7.59%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2006, the fund balance of the General Operations Fund increased \$770,588 as compared to an increase of \$917,894 in the fund balance for the year ended December 31, 2005. Total operating revenues were \$20,199,219, an increase of \$1,503,315 as compared to last year. This change in revenues resulted primarily from a decrease of Federal and State grants of \$1,061,715. Total expenditures were \$19,428,631, an increase of \$1,642,386 as compared to last year. This change in expenditures is due primarily to a decrease in winter maintenance of \$1,069,714.

A summary of changes in the Operating Fund is as follows:

	12/31/05 Operating Fund	12/31/06 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
Taxes	\$ 2,329,044	\$ 2,474,663	\$ 145,619	6.25%
License and Permits	32,675	23,346	(9,329)	-28.55%
Federal Grants	1,788,151	2,462,844	674,693	37.73%
State Grants	8,780,154	9,167,176	387,022	4.41%
Contributions From Local Units	5,478,159	5,452,629	(25,530)	-0.47%
Charges for Services	16,378	27,512	11,134	67.98%
Interest and Rents	188,954	83,820	(105,134)	-55.64%
Other Revenue	82,389	507,229	424,840	515.65%
Total Revenues	<u>18,695,904</u>	<u>20,199,219</u>	<u>1,503,315</u>	<u>8.04%</u>
Expenditures				
Public Works	16,889,233	19,459,708	(2,570,475)	-15.22%
Capital Outlay	863,308	(231,045)	1,094,353	126.76%
Debt Service	33,704	199,968	(166,264)	-493.31%
Total Expenditures	<u>17,786,245</u>	<u>19,428,631</u>	<u>(1,642,386)</u>	<u>-9.23%</u>
Excess of Expenditures Over Revenues	<u>909,659</u>	<u>770,588</u>	<u>(139,071)</u>	<u>15.29%</u>
Other Financing Sources				
Transfers In--Primary Government	<u>8,235</u>		<u>(8,235)</u>	<u>-100.00%</u>
Total Other Financing Sources	<u>8,235</u>	<u>-</u>	<u>(8,235)</u>	<u>-100.00%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	917,894	770,588	(147,306)	16.05%
Fund Balance--Beginning	<u>3,501,653</u>	<u>4,419,547</u>	<u>917,894</u>	<u>26.21%</u>
Fund Balance--Ending	<u>\$ 4,419,547</u>	<u>\$ 5,190,135</u>	<u>\$ 770,588</u>	<u>17.44%</u>

ALLEGAN COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$1,603,600 higher than the original budget primarily due to the Road Commission not receiving certain Federal and State aid projects during the year as originally planned. The actual revenue recognized during 2006 was \$337,481 more than the final amended budget.

The final amended expenditure budget for 2006 was \$895,700 higher than the original budget, primarily due to the Road Commission not receiving certain Federal and State aid projects as originally planned. There was also a decrease in Winter Maintenance of \$272,966 due to seasonal needs. The actual expenditures recognized during 2006 were less than the final amended budget by \$145,069. There were no unfavorable variances in any expenditure line-items.

ALLEGAN COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2006, the Road Commission had invested \$123,890,382 in capital assets. This amount represents a net increase (including additions and deductions) of \$8,123,572 or 7.02% as follows:

	2005	2006	Total Percentage Change 2005-2006
Capital Assets Not being Depreciated			
Land and Improvements	\$ 139,787	\$ 139,787	0.00%
Land/Right-of-Way	1,441,916	1,524,891	5.75%
Infrastructure Land Improvements	56,841,426	61,426,021	8.07%
Subtotal	58,423,129	63,090,699	7.99%
Capital Assets Being Depreciated			
Buildings	1,383,385	1,383,385	0.00%
Equipment	10,232,811	9,930,161	-2.96%
Yard and Storage	1,065,073	1,065,073	0.00%
Infrastructure	84,320,432	89,848,384	6.56%
Subtotal	97,001,701	102,227,003	5.39%
Total Capital Assets	155,424,830	165,317,702	6.37%
Total Accumulated Depreciation	(39,658,020)	(41,427,320)	4.46%
Total Net Capital Assets	\$115,766,810	\$ 123,890,382	7.02%

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$13,072,191. The infrastructure recorded, during 2006, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ 694,864
Various Resurfacing Projects and Related Land/Right-of-Way	11,541,880
Trucks/Equipment	814,493
Administrative and Engineering	20,954
Total Additions	<u>\$13,072,191</u>

There were no installment purchase agreements entered into during 2006, all the equipment was acquired with Road Commission funds.

ALLEGAN COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

During 2006, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$945,682, related depreciation of \$863,685, and net book value of \$81,997.

Debt

During 2006, there was no new debt. In 2007, the Road Commission does not anticipate borrowing or financing any debt related to the acquisition of capital assets.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note G to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission derived approximately 42% of its revenues from the fuel tax collected in 2006. We are projecting a small decrease in MTF funds due to the poor economy and high gas prices. The Road Commission received approximately 27% of its revenues from township contributions during 2006, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. We are anticipating that the townships will spend \$5,300,000 in 2007. During 2007, we expect to receive \$3,764,000 in Federal and State aid for road projects.

The above items were considered when adopting the budget for 2007. Amounts available for appropriation in the 2007 budget are \$24,257,100 an increase of 4% over the 2006 final amended budget of \$23,263,000.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Allegan County Road Commission's administrative offices at 1308 Lincoln Road, Allegan, Michigan 49010.

**ALLEGAN COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2006**

EXHIBIT A

ASSETS

Cash	\$ 2,026,168
Investments	501,357
Accounts Receivable	
Taxes	2,646,817
Interest Receivable	47,671
Sundry Accounts	26,676
Michigan Transportation Fund	1,282,978
State--Other	52
Due on County Road Agreements	864,193
Due From Primary Government	8,235
Inventories	
Road Materials	367,989
Equipment Parts and Materials	426,017
Prepaid Expenses	125,194
Capital Assets (Net of Accumulated Depreciation) (Note F)	<u>123,890,382</u>
Total Assets	<u>132,213,729</u>

LIABILITIES

Current Liabilities	
Accounts Payable	354,572
Due to State of Michigan	4,376
Accrued Liabilities	116,467
Performance Bonds Payable	10,980
Deferred Revenue	
Property Taxes	2,646,817
Noncurrent Liabilities	
Vested Employee Benefits Payable	<u>428,599</u>
Total Liabilities	<u>3,561,811</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	123,890,382
Restricted for County Roads	<u>4,761,536</u>
Total Net Assets	<u>\$ 128,651,918</u>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,801,867
Local Road Maintenance	4,619,443
Net Equipment Expense	37,979
Net Administrative Expense	625,726
Non-Road Project	137,949
Infrastructure Depreciation	3,882,127
Compensated Absences	15,486
Interest Expense	<u>2,339</u>
Total Program Expenses	<u>11,122,916</u>
Program Revenue	
Charges for Services	
License and Permits	23,346
Charges for Services	27,512
Reimbursements	15,925
Operating Grants and Contributions	
Michigan Transportation Funds	8,402,152
Investment Earnings	83,820
Private Contributions	24,105
Contributions From Local Units	858,342
Capital Grants and Contributions	
Federal Grants	2,462,844
State Grants	765,024
Contributions From Local Units	<u>4,594,287</u>
Total Program Revenue	<u>17,257,357</u>
Net Program Revenue	<u>6,134,441</u>
General Revenue	
Taxes	2,474,663
Gain on Equipment Disposal	<u>467,199</u>
Total General Revenues and Transfers In	<u>2,941,862</u>
Change in Net Assets	9,076,303
Net Assets	
Beginning of Year	<u>119,575,615</u>
End of Year	<u><u>\$ 128,651,918</u></u>

The Notes to Financial Statements are an integral part of this statement.

**ALLEGAN COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2006**

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

General
Operating
Fund

ASSETS

Cash	\$2,026,168
Investments	501,357
Taxes Receivable	2,646,817
Accounts Receivable	
Interest Receivable	47,671
Sundry Accounts	26,676
Michigan Transportation Fund	1,282,978
State Highway--Other	52
Due on County Road Agreements	864,193
Due From Primary Government	8,235
Inventories	
Road Materials	367,989
Equipment Parts and Materials	426,017
Prepaid Expense	125,194
Total Assets	<u><u>\$8,323,347</u></u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 354,572
Accrued Liabilities	116,467
Due to State of Michigan	4,376
Performance Bonds Payable	10,980
Deferred Revenue--Property Taxes	2,646,817
Total Liabilities	<u>3,133,212</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	794,006
Reserved for Long-Term Receivables	263,627
Unreserved and Undesignated	4,132,502
Total Fund Equities	<u>5,190,135</u>
Total Liabilities and Fund Equities	<u><u>\$8,323,347</u></u>

The Notes to Financial Statements are an integral part of this statement.

**ALLEGAN COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2006**

EXHIBIT D

Total Governmental Fund Balance	\$ 5,190,135
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	123,890,382
--	-------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(428,599)</u>
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Net Assets of Governmental Activities	<u><u>\$ 128,651,918</u></u>
---------------------------------------	------------------------------

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended December 31, 2006

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Taxes	\$ 2,474,663
License and Permits	23,346
Federal Grants	2,462,844
State Grants	9,167,176
Contributions From Local Units	5,452,629
Charges for Services	27,512
Interest and Rents	83,820
Other Revenue	<u>507,229</u>
Total Revenues	<u>20,199,219</u>
Expenditures	
Public Works	19,459,708
Capital Outlay--Net	(231,045)
Debt Service	<u>199,968</u>
Total Expenditures	<u>19,428,631</u>
Excess of Revenues Over (Under) Expenditures	<u>770,588</u>
Fund Balance--January 1, 2006	<u>4,419,547</u>
Fund Balance--December 31, 2006	<u><u>\$ 5,190,135</u></u>

The Notes to Financial Statements are an integral part of this statement.

**ALLEGAN COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2006**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 770,588

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities. 12,005,699

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets. 197,629

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and infrastructure depreciation) (3,897,613)

Change in Net Assets of Governmental Activities \$ 9,076,303

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Allegan County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Allegan County Road Commission.

NOTE A--REPORTING ENTITY

The Allegan County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt without the county's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Allegan County Road Commission, a discretely presented component unit of Allegan County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Allegan County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Measurable refers to the ability to quantify in monetary terms of the amount of the revenue. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash and Investments

Cash is considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes Receivable

The property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st. The 2005 taxable valuation of the Allegan County amounted to \$3,866,129,713, less \$1,139,042,173 for cities and villages on which ad valorem taxes of .9699 mills were levied for the Road Commission for road construction purposes for a total of \$2,646,817.

The county's 2006 ad valorem tax is levied and collectible on December 1, 2006, and is reported as taxes receivable and is offset by deferred revenue at December 31, 2006.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Allegan County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Road Commission's tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended December 31, 2007, when the proceeds of the levy are budgeted and available for the financing operations.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board does not conduct a public budget hearing; the budget is submitted to the county and included in its public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated seven financial institutions for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 2,026,068
Investments in Government Operating Money Markets and Government Securities	501,357
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$ 2,527,525</u></u>

The bank balance of the primary government's deposits is \$2,476,748, of which \$400,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to government operating money markets and government securities purchased in the name of the Road Commission.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the Road commission's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Road Commission's investments by maturity:

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Government Securities	<u>\$501,356</u>	<u>\$501,356</u>	<u> </u>	<u> </u>
Total	<u><u>\$501,356</u></u>	<u><u>\$501,356</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, the Road Commission's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Rated Debt Investments</u>			
	<u>Fair Value</u>	<u>Rating S & P</u>	<u>Fair Value</u>	<u>Rating Moody's</u>
Cash and Cash Equivalents	\$ 11,969		\$ 11,969	
Government Securities	<u>489,388</u>	AAA	<u>489,388</u>	Aaa
Total	<u><u>\$ 501,357</u></u>		<u><u>\$501,357</u></u>	

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE E--INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2006, the county (primary government) owed the Road Commission \$8,235 for the Richmond Bridge Project.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 01/01/05	Additions	Deductions	Account Balances 12/31/06
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 139,787			\$ 139,787
Land/Right-of-Way	1,441,916	\$ 82,975		1,524,891
Infrastructure Land Improvements	56,841,426	4,584,595		61,426,021
Subtotal	58,423,129	4,667,570	\$ -	63,090,699
Capital Assets Being Depreciated				
Buildings	1,383,385			1,383,385
Road Equipment	9,966,240	814,492	945,682	9,835,050
Shop Equipment	32,513			32,513
Office Equipment	184,767	1,230	155,079	30,918
Engineer's Equipment	49,291	19,724	37,335	31,680
Yard and Storage	1,065,073			1,065,073
Infrastructure--Bridges	9,029,131	694,864	4,561	9,719,434
Infrastructure--Roads	75,291,301	6,874,310	2,036,661	80,128,950
Total	97,001,701	8,404,620	3,179,318	102,227,003
Less Accumulated Depreciation				
Buildings	639,892	27,544		667,436
Road Equipment	7,953,530	913,603	863,685	8,003,448
Shop Equipment	25,756	3,867		29,623
Office Equipment	169,653	9,130	155,079	23,704
Engineer's Equipment	46,457	7,684	37,336	16,805
Yard and Storage	161,908	22,668		184,576
Infrastructure--Bridges	2,039,222	219,394	4,561	2,254,055
Infrastructure--Roads	28,621,602	3,662,732	2,036,661	30,247,673
Total	39,658,020	4,866,622	3,097,322	41,427,320
Net Capital Assets Being Depreciated	57,343,681	8,404,620	4,948,618	60,799,683
Total Net Capital Assets	\$ 115,766,810	\$ 13,072,190	\$ 4,948,618	\$ 123,890,382

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 913,603
Indirect Equipment	54,079
Net Administrative Expense	
Office Equipment	9,130
Engineering	7,684
Infrastructure Depreciation Expense	<u>3,882,126</u>
Total Depreciation Expense	<u><u>\$4,866,622</u></u>

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balance</u> <u>01/01/06</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/06</u>	<u>Due Within</u> <u>One Year</u>
Installment Purchase Agreements				
Capterpillar Financial Services				
Two Motor Graders, December 2001	\$197,629	\$ (197,629)	-	
Vested Employee Benefits	<u>413,114</u>	<u>15,485</u>	<u>\$ 428,599</u>	<u> </u>
Total	<u><u>\$610,743</u></u>	<u><u>\$ (182,144)</u></u>	<u><u>\$ 428,599</u></u>	<u><u>\$ -</u></u>

NOTE H--VESTED EMPLOYEE BENEFITS

Employees with 6 months of seniority are granted leave time of 16 hours per month. Office employees get an additional 16 hours of leave pay on January 1st of each year. Employees of the Local Union No. 517M, with six (6) months or more of seniority, shall be granted five (5) hours of leave pay on January 1st of each year. This leave time may be used to cover absences because of illness or vacation. Such leave may be accumulated to a maximum of 768 hours.

On the first payday of June each year, employees are paid an amount equal to all leave accrued in excess of 576 hours as shown in the records on December 31 of the preceding year. Accumulated leave time is payable in full upon resignation or retirement. Office employees leave time is payable in full upon resignation, termination or retirement.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Allegan County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE J--POST-EMPLOYMENT HEALTH CARE BENEFITS

The Road Commission provides post-employment health care benefits, in accordance with the respective bargaining agreements and personnel policy as follows:

Employees that belong to the office bargaining unit and nonrepresented employees contribute the cost of their health care insurance coverage in accordance with the terms and conditions as applicable to them as of their last date of active service with the Road Commission. If the employee retires subsequent to December 31, 1993, he/she will pay 4% of all premium costs incurred. Beginning January 1, 1999, an employee who retires, and begins to receive benefits from MERS (Michigan Municipal Employees' Retirement System), may receive a maximum of five years of paid health care insurance program, irrespective of age, and will be responsible to pay 4% of all premium costs incurred. Any member of the bargaining unit who retires during the period January 1, 2004, through December 31, 2006, will not be required to pay co-pay for health insurance premiums. Premiums incurred on behalf of the retiree's spouse or dependent's is the responsibility of the retired employee. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts.

Employees that belong to the Local Union No. 517M, Service Employees' International Union contribute the cost of their health care insurance coverage in accordance with the terms and conditions as applicable to them as of their last date of active service with the Road Commission. The Road Commission shall provide health care insurance coverage for a period of five (5) years, for all members who retire with twenty or more years of service and receive benefits from the Michigan Municipal Employees' Retirement System. The board will provide benefits only to the employee and the board's obligation does not include the coverage of a retired employee's spouse or dependents. The board shall provide no benefits to any employee after reaching the age of 65 years.

Currently, 7 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, expenditures of \$39,866 were recognized for post-employment health care by the Road Commission.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEE PENSION PLAN

Plan Description

The Allegan County Road Commission is in an agent multi employer-defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement deferred retirement, service retirement allowance, disability retirement allowance, nonduty connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2% time the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a), State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 4.7% of annual compensation. The employees contributed \$136,548 during 2005 in accordance with the competitive bargaining and personnel policy. The Road Commission is required to contribute at an actuarially determined rate which was 2.84% of the annual payroll for the union and supervisors and 5.22% for administration based on the 2003 actuarial valuation beginning on January 1, 2005.

Annual Pension Cost

During the year ended December 31, 2005, the Road Commission was required to make \$164,878 in contributions as determined by an actuarial valuation of the plan as of December 31, 2003 and the employees contributed \$136,548 in accordance with the plan. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEE PENSION PLAN (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 160,663	100%	\$0
2004	260,948	100%	0
2005	301,426	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/03	\$ 12,761,760	\$12,914,970	\$ 153,210	99%	\$2,762,714	6%
12/31/04	13,195,275	14,453,113	1,257,838	91%	2,754,152	46%
12/31/05	13,649,053	15,269,350	1,620,297	89%	2,805,153	58%

NOTE L--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for Inland Marine, physical damage (building and contents) and medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions and physical damage (equipment). The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

The county road commissions in the State of Michigan established a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provision of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Allegan County Road Commission became a member in the pool in April 1984 and became a member of CRCSIF in 1981.

The Michigan County Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE M--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

NOTE N--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2006, the Federal aid received and expended by the Road Commission was \$2,462,844 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to Single Audit requirements by the road commissions, as they are included in MDOT's Single Audit.

During the calendar year ended December 31, 2006, the Road Commission did not receive any Federal negotiated projects. Negotiated projects are projects that are performed by the Road Commission and is subject to Single Audit requirements, if the amount expended is \$500,000 or more. A Single Audit was not required for the calendar year ended December 31, 2006.

ALLEGAN COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2006

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 2,335,100	\$ 2,481,200	\$ 2,474,663	\$ (6,537)
License and Permits				
Permits	25,000	25,000	23,346	(1,654)
Federal Grants				
Surface Transportation Program	1,650,000	1,650,000	1,626,487	(23,513)
Hazard Elimination Safety	200,000	200,000	-	(200,000)
Federal Critical Bridge	634,000	465,000	463,563	(1,437)
Congestion C Funds	-	500	499	(1)
Economic D Funds	630,000	353,000	372,295	19,295
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	4,808,000	4,820,000	4,815,538	(4,462)
Local Road	3,121,000	3,140,000	3,100,976	(39,024)
Primary Urban Road	173,000	266,000	265,937	(63)
Local Urban Road	70,000	95,000	91,414	(3,586)
Snow Removal	117,000	120,000	118,287	(1,713)
Critical Bridge	120,000	89,000	86,918	(2,082)
Economic Development Funds				
"D" Funds	570,000	671,000	678,106	7,106
Contributions--Local Units				
Townships	4,280,000	5,456,000	5,452,629	(3,371)
Charges for Services				
Salvage Sales	5,000	23,000	6,739	(16,261)
Service Charge	15,000	-	20,773	20,773
Interest and Rents				
Interest Earned	60,000	150,000	83,820	(66,180)
Other Revenue				
Private Contributions		35,000	24,105	(10,895)
Reimbursements	10,000	17,000	15,925	(1,075)
Gain on Equipment Disposal	100,000	470,000	467,199	(2,801)
Total Operating Revenue	18,933,100	20,536,700	<u>\$ 20,199,219</u>	<u>\$ (337,481)</u>
Fund Balance--January 1, 2006	3,549,753	3,549,753		
Total Budget	<u>\$ 22,482,853</u>	<u>\$ 24,086,453</u>		

**ALLEGAN COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2006**

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 5,900,000	\$ 6,900,000	\$ 6,877,517	\$ 22,483
Routine and Preventive Maintenance	2,278,000	1,800,000	1,755,053	44,947
Local Road				
Preservation/Structural Improvements	4,455,000	4,670,000	4,664,363	5,637
Routine and Preventive Maintenance	4,900,000	4,655,000	4,614,646	40,354
Primary Road Structure				
Preservation/Structural Improvements	10,000	38,000	37,073	927
Routine and Preventive Maintenance	10,000	50,000	46,814	3,186
Local Road Structure				
Preservation/Structural Improvements	846,000	660,000	657,791	2,209
Routine and Preventive Maintenance	5,000	5,000	4,797	203
Equipment Expense--Net	20,000	53,000		
Direct			\$1,424,916	
Indirect			774,234	
Operating			453,425	
Less: Equipment Rentals			<u>(2,614,596)</u>	15,021
Administrative Expense--Net	579,000	630,700		
Administrative Expense			396,388	
Engineering Expense			230,611	
Less: Purchase Discounts			<u>(1,273)</u>	4,974
Non Road Project		140,000	137,949	2,051
Capital Outlay--Net	(363,000)	(231,000)		
Capital Outlay			835,447	
Less: Depreciation Credits			(984,496)	
Equipment Retirements			<u>(81,996)</u>	45
Debt Service				
Principal	26,000	200,000	197,629	2,371
Interest	12,000	3,000	2,339	661
Total Expenditures	18,678,000	19,573,700	<u>\$19,428,631</u>	<u>\$145,069</u>
Fund Balance--December 31, 2006	3,804,853	4,512,753		
Total Budget	<u>\$ 22,482,853</u>	<u>\$ 24,086,453</u>		

ALLEGAN COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2006

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$11,149,051	\$ 8,929,615	\$ 120,553	\$20,199,219
Total Expenditures	8,999,424	10,301,007	128,200	19,428,631
Excess of Revenues Over (Under) Expenditures	2,149,627	(1,371,392)	(7,647)	770,588
Other Financing Sources (Uses) Optional Transfers	(1,524,443)	1,524,443		-
Total Other Financing Sources (Uses)	(1,524,443)	1,524,443	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	625,184	153,051	(7,647)	770,588
Fund Balance--January 1, 2006	4,338,857	-	80,690	4,419,547
Fund Balance--December 31, 2006	\$ 4,964,041	\$ 153,051	\$ 73,043	\$ 5,190,135

ALLEGAN COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended December 31, 2006

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes	\$ 2,474,560		\$ 103	\$ 2,474,663
License and Permits				
Permits			23,346	23,346
Federal Aid				
Surface Transportation Program	1,626,487			1,626,487
Critical Bridge		\$ 463,563		463,563
Congestion C Funds	499			499
Economic D Funds	372,295			372,295
State Aid				
Michigan Transportation Fund				
Engineering	6,083	3,917		10,000
Allocation	4,815,538	3,100,976		7,916,514
Urban Roads	265,937	91,414		357,351
Snow Removal		118,287		118,287
Critical Bridge		86,918		86,918
Economic Development Funds				
"D" Funds	678,106			678,106
Contributions--Local Units				
Townships	363,963	5,027,980	60,686	5,452,629
Charges for Services				
Salvage Sales			6,739	6,739
Service Charge			20,773	20,773
Interest and Rents				
Interest Earned	82,290		1,530	83,820
Other Revenue				
Private Contributions		21,000	3,105	24,105
Reimbursements	365	15,560		15,925
Gain on Equipment Disposal	462,928		4,271	467,199
Total Operating Revenue	\$ 11,149,051	\$ 8,929,615	\$ 120,553	\$20,199,219

ALLEGAN COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2006

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$6,877,517			\$ 6,877,517
Routine and Preventive Maintenance	1,755,053			1,755,053
Local Road				
Preservation/Structural Improvements		\$ 4,664,363		4,664,363
Routine and Preventive Maintenance		4,614,646		4,614,646
Primary Road Structures				
Preservation/Structural Improvements	37,073			37,073
Routine and Preventive Maintenance	46,814			46,814
Local Road Structures				
Preservation/Structural Improvements		657,791		657,791
Routine and Preventive Maintenance		4,797		4,797
Equipment Expense--Net (Per Exhibit H)	11,975	26,004		37,979
Administrative Expense--Net (Per Exhibit H)	292,320	333,406		625,726
Non Road Project			\$137,949	137,949
Capital Outlay--Net (Per Exhibit H)	(221,296)		(9,749)	(231,045)
Debt Service				
Principal	197,629			197,629
Interest	2,339			2,339
Total Expenditures	\$8,999,424	\$ 10,301,007	\$128,200	\$19,428,631



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 29, 2007

Allegan County Road Commission
Board of County Road Commissioners
1308 Lincoln Road
Allegan, Michigan 49010

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Allegan County Road Commission, a component unit of Allegan County, as of and for the year ended December 31, 2006, and have issued our report thereon dated March 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Allegan County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of the Allegan County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Allegan County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Allegan County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Allegan County Board of Road Commissioners, the Allegan County Road Commission's management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


Local Audit and Finance Division
Michigan Department of Treasury